

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of

THE FILING OF A GENERAL RATE INCREASE)
BY FOX CREEK RURAL ELECTRIC COOPERATIVE) CASE NO. 7589
CORPORATION OF LAWRENCEBURG, KENTUCKY,)
APPLICABLE TO ITS MEMBERS)

O R D E R

On October 24, 1979, Fox Creek Rural Electric Cooperative Corporation (hereinafter Applicant or Fox Creek) filed an application with this Commission requesting authority to increase its revenue by approximately \$528,500 on an annual basis, an increase of approximately 17.2%. Applicant stated in the application that the additional revenue was required to remain on a sound financial basis and continue to give service to its members.

The Commission scheduled the matter for hearing on January 7, 1980 and ordered Applicant to give notice of the date and hour of the hearing and the proposed rates.

On October 29, 1979, the Consumer Protection Division in the Department of Law pursuant to KRS 367.150 filed a Motion to intervene in this proceeding. This was the only party of interest formally intervening herein.

COMMENTARY

Fox Creek Rural Electric Cooperative Corporation is a consumer owned electric distribution cooperative which serves approximately 6,478 consumer members in the Kentucky counties of Anderson, Mercer, Franklin, Henry, Shelby, Spencer, Washington, Woodford and Jessamine. Applicant purchases all of its power from East Kentucky Power Cooperative, Inc.

TEST YEAR

Applicant proposed and the Commission has adopted the twelve month period ending May 31, 1979 as the test period for determining the reasonableness of the proposed rates and charges. In utilizing the historic test period the Commission has given full consideration to known and measurable changes where appropriate.

VALUATION

The Commission finds from the evidence that Applicant's Net Original Cost at May 31, 1979 is as follows:

Utility Plant in Service	\$ 6,541,948
Construction Work in Progress	226,302
Total Utility Plant	\$ 6,768,250

Add:

Materials and Supplies	\$ 83,390
Prepayments	47,667
Working Capital	114,954
Sub-total	\$ 246,011

Deduct:

Depreciation Reserve	\$ 1,557,200
Customer Advances for Construction	33,673
Sub-total	\$ 1,590,873
Net Investment	\$ 5,423,388

In calculating the Net Investment, Applicant proposed the thirteen month average account balance for prepayments. The Commission accepts this method of reflecting this investment and further adjusts Materials and Supplies to utilize the thirteen month average. The Commission has further adjusted Applicant's Rate Base to reflect the pro-forma depreciation expense adjustment in the calculation of the Accumulated Provision for Depreciation. Likewise, the working capital has been adjusted to reflect the pro-forma operation and maintenance expenses rather than the 12-month actual. The Commission is of the opinion that this method provides greater recognition of the changing conditions in which a utility operates.

The Commission has determined that Applicant's Capital Structure at the end of the Test Period was \$6,070,264, and consisted of \$1,624,670 equity and \$4,445,594 in Long-Term Debt.

The Commission has given due consideration to these and other elements of value in determining the reasonableness of the rate increase proposed herein.

REVENUES AND EXPENSES

Applicant proposed several pro-forma adjustments to revenues and expenses as reflected on the adjusted Income Statement. These adjustments were proposed to normalize increases in revenue, power costs, right-of-way maintenance, salaries and wages, insurance, depreciation, and interest on long-term debt. Subsequent to the public hearing Applicant proposed certain revisions to the expense adjustments to reflect more accurate projections of known and measurable cost increases. The Commission after due consideration has accepted all of the pro-forma adjustments as determined by Applicant.

The effect on Net Income of the pro-forma adjustments is as follows:

	<u>Actual Test Period</u>	<u>Pro-Forma Adjustments</u>	<u>Adjusted</u>
Operating Revenue	\$2,828,525	\$ 252,208	\$3,080,733
Operating Expenses	<u>2,619,392</u>	<u>490,355</u>	<u>3,109,747</u>
Net Operating Income	\$ 209,133	\$ (238,147)	\$ (29,014)
Other Income & Deductions (Net)	<u>(154,440)</u>	<u>(60,708)</u>	<u>(215,148)</u>
Net Income	<u>\$ 54,693</u>	<u>\$ (298,855)</u>	<u>\$ (244,162)</u>

RATE OF RETURN

The actual rate of return on Applicant's Net Original Cost established herein for the test year was 3.86%. After taking into consideration the pro-forma adjustments, Applicant would realize a negative rate of return. The Commission is of the opinion and finds that the adjusted rate of return is inadequate and would impair applicant's financial integrity. In order to remain on a sound financial basis Applicant should be allowed to increase its annual revenue by approximately \$528,500 which would result in a rate of return of 9.2%. This additional revenue will provide Net Income of approximately \$283,700 which will be sufficient to meet the requirements in Applicant's mortgages securing its long-term debt, by providing a Times Interest Earned Ratio of 2.19 based on the test period herein.

RATE DESIGN

Applicant proposed to modify its existing rate design as a result of an allocated cost of service study prepared by an outside consulting firm. The Commission concurs with Applicant's assertion that the study presented indicates a deficiency in the revenue derived from the Residential Class of consumer. However, the Commission does not agree with the allocation of the rates to the modified consumption blocks within the Residential Class. Furthermore, the testimony and exhibits contained in the record do not support the rate design proposed by Applicant. Therefore, the Commission is of the opinion and finds that the proposed rate design should be denied; and herein orders Fox Creek to remain on its existing rate design as set out in Appendix "A" attached hereto. In so doing the Commission finds that the increase applied to the existing rate design will provide a more equitable distribution of the required revenue; and further, will lessen the impact, of the proposed rates, on the average residential consumer.

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates and charges set out in Appendix "A" attached hereto and made a part hereof will produce gross annual revenue in the amount of approximately \$3,609,300 and are the fair, just and reasonable rates for Applicant.

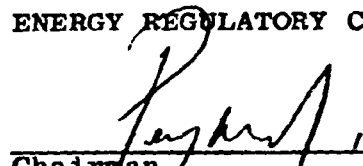
IT IS THEREFORE ORDERED that the rates proposed by Fox Creek Rural Electric Cooperative Corporation are hereby denied.

IT IS FURTHER ORDERED that the rates set out in Appendix "A" attached hereto and made a part hereof are approved for service rendered on and after the date of this Order.

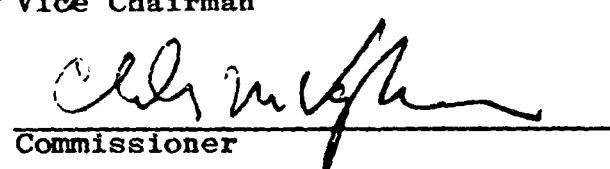
IT IS FURTHER ORDERED that Fox Creek Rural Electric Cooperative Corporation shall file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this, the 18th day of April, 1980.

ENERGY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY COMMISSION IN CASE NO. 7589 DATED APRIL 18, 1980.

The following rates and charges are prescribed for the customers in the area served by the Fox Creek Rural Electric Cooperative Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

RATES: Monthly

Schedule A - Residential Service*

Minimum Bill	30 KWH per month	\$4.80 per month
Next	50 KWH per month	10.31¢ per KWH
Next	420 KWH per month	4.68¢ per KWH
All Over	500 KWH per month	4.12¢ per KWH

The minimum monthly charge under the above rate shall be 90¢ per KVA of transformer capacity but in no case less than \$4.80.

Schedule B - Commercial and Small Power*

First	10 KW of Billing Demand	No Charge
Over	10 KW of Billing Demand	\$2.25 per KW
Minimum Bill	30 KWH per month	\$ 4.80 per month
Next	50 KWH per month	10.31¢ per KWH
Next	20 KWH per month	4.68¢ per KWH
Next	900 KWH per month	6.08¢ per KWH
Next	2,000 KWH per month	5.38¢ per KWH
All Over	3,000 KWH per month	4.40¢ per KWH

The minimum monthly charge under the above rate shall be 90¢ per KVA of transformer capacity but in no case less than \$4.80.

Schedule LP - Large Power Service*

Demand Charge	\$2.25 per KW of demand billing	
First	50 KWH per KW of Billing Demand	5.40¢ per KWH
Next	100 KWH per KW of Billing Demand	5.00¢ per KWH
Over	150 KWH per KW of Billing Demand	4.01¢ per KWH

The minimum monthly charge under the above rate shall be the contract minimum or 90¢ per KVA of transformer capacity but in no case less than \$30.00.

Rural Lighting and Community Street Lighting*

<u>Size/Type Lamp</u>	<u>KWH/yr.</u>	<u>Rate</u>
175 Watt Mercury Vapor	828	\$4.50 per month

*The monthly kilowatt hour usage shall be subject to plus or minus an adjustment per KWH determined in accordance with the "Fuel Adjustment Clause."